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FOREIGN AGRICULTURE

June 12, 1972

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U.S. Trade With the USSR

U.S. Flour in Foreign Markets

Foreign
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U.S. DEPARTMENT
OF AGRICULTURE

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A threshing floor on a State farm in the Krasnodar territory. Grains are playing an important role in improved trade relations between the United States and the Soviet Union. See story beginning on this page.

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U.S. AGRICULTURE'S STAKE IN IMPROVING TRADE WITH THE USSR

Large Soviet purchase of U.S. feedgrains, visits by U.S. and Russian leaders, contribute to warming relations.

By MARY E. WILSON
Commodity Programs
Foreign Agricultural Service

U.S. agriculture already has felt a warming trend in U.S.-Soviet relations, giving a taste of what might happen if trade relations could be normalized and U.S. agricultural products assume a larger role in the Soviet market. Secretary Earl Butz's visit to the USSR and the initiation of grain negotiations early in April 1972 are clear indications of the potential stake for U.S. agriculture in better U.S.-Soviet trade relations. Improvements in the political climate which could result from President Nixon's trip to Moscow in May could aid this warming trend.

Reducing cold war restraints on trade. Since World War II, U.S. trade with the Soviet Union has been dependent upon noncommercial political considerations which helped to minimize U.S.-Soviet trade. Numerous obstacles and restraints served to restrict trade from both sides during the Cold War period.

The Soviet Union forcefully redirected the trade of the East European countries away from the West after World War II in order to meet Soviet import needs, attempting to establish a separate economic area which would be self-sufficient in trade. A Communist economic organization called Comecon or CEMA was established to help coordinate this trade.

For their part, the Western nations also hoped to minimize trade with the Communist area. They created an organization called COCOM to develop an extensive list of export controls on

items which could contribute to the economic or military strengthening of the Communist countries.

In addition to the COCOM list of strategic export controls, the United States also maintained a separate list which was longer than the lists maintained by any other NATO country. Until 1966 several farm products required approval before they could be exported to the Soviet area; these included hides, skins, seeds, peanuts, soybeans, cheese, cereals, flour, tobacco, cotton, and vegetable oils. Both the COCOM lists and the separate U.S. export control lists have been substantially reduced in recent years. Virtually all agricultural products have by now been removed from the U.S. list and can be exported without restraint to Russia.

The United States is one of the few Western nations at present which does not grant most-favored-nation (MFN) status to the Soviet Union. Instead, since 1962 the United States has carried two lists of import duties: one contains rates not much different from the high tariffs of 1930—the highest in U.S. history—and these are applied to goods from the USSR, although goods not on this list can enter free of tariff; the other contains the much lower rates resulting from tariff concessions negotiated under the U.S. Trade Agreements Program and this list applies to all countries to which the United States grants MFN.

Because the European NATO countries have generally granted MFN to the Soviet Union, they have established import quotas on agricultural and other goods imported from the USSR and its East European allies in order to protect domestic markets. Some of these countries have agreed to reduce or phase out these import quotas by 1975 under bilateral trade agreements with Russia. The United States does not apply special import quotas to U.S.-Soviet trade in agricultural goods, but has maintained an embargo on imports of certain furs and skins (including mink, marten, muskrat, weasel).

Favorable changes in East-West political relations have helped to improve the trade atmosphere in recent years. The thaw actually occurred much earlier in Europe than in U.S.-Soviet trade relationships. By 1969 Japan, the United Kingdom, West Germany, and Italy each conducted more than $500 million worth of trade with the Soviet Union, and France was very close behind. Total U.S. trade with the Soviets, however, was only slightly above $175 million that year.

Substantially higher levels of trade, agreements on joint ventures, and joint commissions on economic and scientific cooperation mark West European relations with the Soviet Union. As a result, West Europeans have had more experience in selling to and buying from Soviet trade organizations and they have developed a fairly sizable trade in agricultural products with the Soviet Union.

More than $300 million in agricultural goods[1] were imported by West European countries from Russia in 1969 (accounting for about 15 percent of total imports from the USSR) and more than $100 million in agricultural products were exported to the USSR (accounting for about 5 percent of their total exports to the USSR).

Spurred by developments in West European trade with Russia as well as by a general improvement in the political climate since 1969 (including the West German renunciation-of-force agreements with the USSR and Poland, an agreement on Berlin, and the initiation of the Strategic Arms Limitation Talks), the United States also has moved to expand its agricultural trade with the Soviet Union.

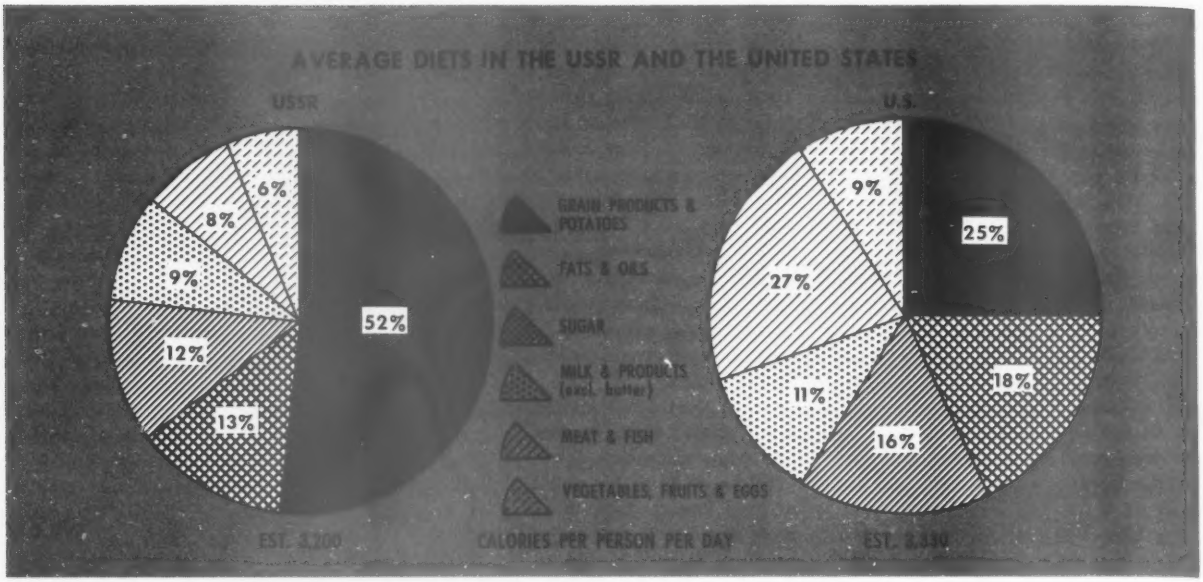
Recent developments have been:

- In June 1971 President Nixon removed the requirement that 50 percent of all U.S. wheat and grain exports to the Soviet area must move in U.S. ships.
- In September 1971 a U.S. Department of Agriculture feed and livestock team visited the USSR.
- In November 1971 the former Secretary of Commerce Maurice Stans, visited Moscow to discuss trade.
- In November also the United States announced the purchase by the USSR of about 3 million tons of U.S. feedgrains. This purchase may amount to $150 million.
- In December the Soviet Minister of Agriculture toured U.S. agricultural areas for 2 weeks.
- On April 8, 1972, Secretary Butz left for Moscow to return the Soviet Minister's visit and to open grain negotiations undertaken by a USDA grain trade team.
- During the week of May 8 the Soviet Minister of Foreign Trade visited Washington to continue trade discussions.

Patterns in Soviet agricultural trade. Although the Soviet Union is a net exporter in total trade, it is a net im-

[1] Includes livestock, meat, dairy products, cereals, fruits, vegetables, beverages, tobacco, sugar, oilseeds, fats, oils, hides, cotton, fodder.

Left, Kalmyk breed bulls. Above, grain harvesting on a mechanized farm in the rich Amur region.



porter of agricultural goods. In 1969 total Soviet exports were valued at $11.7 billion, while total imports were valued at $10.3 billion. Agricultural goods accounted for 15 percent of total exports ($1.7 billion) and 19 percent of total imports ($1.9 billion).[2] About two-thirds of Russian trade is conducted with other Communist countries, —50 percent with Eastern Europe—20 percent with the developed West, and 10 to 11 percent with the developing countries.

In farm products, the Soviet Union has been a major exporter of cereals (especially wheat), cotton, vegetable oils, refined sugar, meat and meat products, dairy products, and eggs. Major imports have included fruits and vegetables, short and extra-long staple cotton, tobacco, raw sugar, grains, coffee, tea, and some meats. Imports of grains, meats, and breeding stock have increased sharply since 1969.

The bulk of Soviet agricultural trade is with Eastern Europe. The USSR exports grains, cotton, wool, oil, and oilseeds to Eastern Europe in exchange for tobacco, fruits, and vegetables. To Western Europe the USSR ships wheat, sunflowerseed oil, oilseed meal, cotton, furs, and fresh vegetables, while importing meat and meat byproducts, fresh fruits, tobacco, dairy products, alcoholic beverages, and cocoa. Other major agricultural exports include sunflowerseed and cotton to Japan, sugar to Africa and the Middle East, and wheat to Cuba. Cotton is imported from Africa and the Middle East; wheat from Canada; coarse grains from Mexico and Argentina; coffee, cocoa, tea, fruits, and vegetables from the developing countries.

U.S.-Soviet agricultural trade prior to the recent large sale of grains to Russia—and except for a large wheat sale in 1963-64—has been negligible. During fiscal 1970-71 the United States exported $12.5 million in agricultural products to the USSR—98 percent in hides, skins, and almonds. In the past the Soviet Union also has purchased tallow, wheat, rice, soybeans, and some breeding stock from the United States at irregular intervals, with the value ranging from $5 million to $130 million. Recent sales of U.S. grain and breeding stock will increase fiscal 1971-72 exports substantially. U.S. agricultural imports from the USSR have been insignificant—ranging from $400,000 to $3.5 million since 1966-67. Imports have included furs, bristles, licorice root, cotton linters, cottonseed oil, and other essential oils.

Potential for future markets. Over the short run the biggest potential for U.S. exports to Russia now lies in grains, feedstuffs, and breeding stock —in addition to current shipments of hides, skins, and almonds. Much of this potential stems from Soviet plans during the present 5-year period (through 1975) to substantially increase the protein portion of the Soviet diet. Only about 8 percent of the diet now is devoted to the consumption of meat and fish, compared to 21 percent of the U.S. diet, while more than half of the Soviet diet is devoted to grains and potatoes, compared to 25 percent of the U.S. diet.

In order to improve the protein content of the Russian diet, the Soviet Union is aiming for a 27-percent increase in the production of livestock by 1975. To do this, better breeding stock is needed. More than 330 U.S. bulls and heifers already have been purchased. More grain and oilseeds also probably will be needed, especially in the form of high-energy feeds such as corn or grain sorghum and high-protein feeds such as soybeans or soybean meal. The Soviet Union now uses mainly roughages as feeds, with only a minor portion of concentrates. The use of more concentrates, such as corn and soybeans, will enable a more rapid and more efficient expansion of meat production.

More than any other country, the United States, with above normal supplies of corn and other grains currently on hand, easily could handle any

(Continued on page 9)

[2] The United States, with a GNP almost twice as large as that of the USSR, exported about $43 billion and imported about $40 billion in 1970; agricultural products accounted for 17 percent of U.S. exports and 14 percent of imports.

THE CARIBBEAN MARKET FOR QUALITY U.S. BEEF

By J. LAWRENCE BLUM
Export Trade Services Division
Foreign Agricultural Service

Tourists enjoy U.S. beef in Nassau.

The Caribbean region is expected to import more U.S. beef than any other single market during 1972-74 (with the possible exception of Canada). U.S. beef exports to the area[1] will consist almost entirely of high quality cuts (round, trimmed loin, rib, or chuck), fabricated cuts (trimmed porterhouse steak), and carcasses.

By 1974 U.S. beef exports to the Caribbean, according to a recent FAS study, are forecast to rise from about 5 percent in the French West Indies to almost 30 percent in Barbados. They are expected to reach the $14.5-million level in Bermuda, the Bahamas, and Jamaica.

These estimates are based on several factors including: present volume of sales, historical growth of the market, potential for increased tourism (tourists are the major consumers), and proximity to the United States—permitting lower transportation costs and better servicing than shipments to more distant markets.

Exports of U.S. beef to the Caribbean region have risen every year since 1965. The average annual growth rate for the entire area has been 19 percent. In 1971, shipments were valued at nearly $11 million—second only to Canada, which took $13 million. Together these two markets purchased $24 million, more than 80 percent of total U.S. exports of $24.9 million.

The Bahamas is the largest country market in the region, accounting for about $6.8 million—some 66 percent of Caribbean purchases—in 1971. Bermuda and Jamaica are the second and third largest, each taking over $1 million worth of U.S. beef annually. These three areas account for about 90 percent of all beef sales to the region.

U.S. beef has little competition in the Caribbean market. Although data are scanty, it is known that New Zealand and Australia are dominant suppliers of relatively inexpensive lower quality beef. Canada is the only country competing with the United States as a supplier of top quality beef to the region. However, Canada's share of the market is small and its supplies limited.

Demand for U.S. beef in the Caribbean is primarily determined by the level of tourism. Tourists have the incomes to purchase U.S. beef in restaurants or hotel dining rooms and to vacation at luxury resorts that serve this product.

The Bahamas are by far the largest tourist mecca. They attracted 917,000 vacationers in 1970, equal to 40 percent of all tourism in the Caribbean area. Jamaica and Bermuda are the second and third largest resort areas. Tourism for the Caribbean as a whole increased at a rate of 12 percent a year from 1966 to 1970. Nearly nine of every 10 persons visiting the Bahamas are from the United States. For Bermuda and Jamaica, the figure is eight out of 10. Canadians are the second largest group vacationing in the islands.

Bermuda, the Bahamas, and Jamaica account for 67 percent of tourism to the Caribbean and 88 percent of the U.S. beef exports. Americans comprise about 85 percent of the visitors to the three areas. Thus, most of the U.S. beef shipped to the Caribbean is being eaten by U.S. tourists. Consequently, anything which affects the number of people traveling to the Caribbean also influences the level of U.S. beef exports.

Several factors suggest that expansion of U.S. beef sales to the Caribbean area between 1971 and 1974 will be strong but will not match the excellent performance of 1965-71.

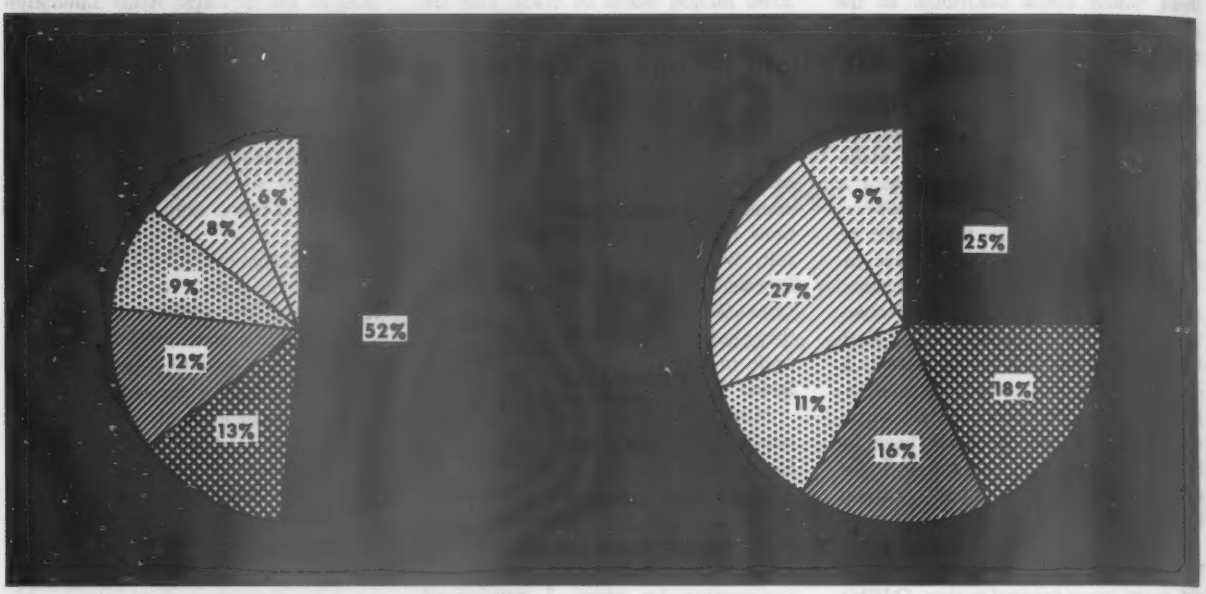
(Continued on page 12)

[1] Bermuda, the Bahamas, Jamaica, Leeward and Windward Islands, Barbados, Trinidad-Tobago, Netherlands Antilles, French West Indies, British Virgin Islands, and Cayman Islands.

ACTUAL AND ESTIMATED U.S. BEEF EXPORTS TO THE CARIBBEAN, 1971 and 1974[1]

Country	Actual 1971	Estimated 1974	Average annual increase
	1,000 dollars	*1,000 dollars*	*Percent*
Bermuda, Bahamas, Jamaica	9,416	14,515	15
Leeward-Windward Islands	301	464	15
Barbados	293	614	28
Trinidad-Tobago	86	123	13
Netherlands Antilles	554	1,006	22
French West Indies	57	66	5
Total	10,707	16,788	16

[1] The estimate for Bermuda, the Bahamas, and Jamaica was calculated from a trend line depicting the relationship between exports and the number of tourists. Estimates for the other islands were extrapolated from the 1971 level of exports and computed on the basis of the annual percentage increase over the 1965-71 period.



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U.S. Flour Exporters Urged To Hold and Expand Share Of World Market

Clifford G. Pulvermacher, General Sales Manager, Export Marketing Service, says new programs and products can expand U.S. flour exports.

U.S. exports of wheat flour in 1971 were at their lowest point since the mid-1950's, and the U.S. share of the world flour export markets continues to shrink.

This does not mean that the export situation for the nation's flour millers is hopeless. Far from it. It does mean that they face a challenging situation which will require major efforts and some fresh thinking if the United States is to hold its place as a major exporter of flour and wheat products.

The recent dock strike hurt our flour exports but other factors contributed more to the drop of over 20 percent in volume from calendar 1970 to 1971. The export total in 1971 was 20.5 million hundredweight, or somewhat less than 10 percent of the industry's mill grind for the year. There was a slight pickup in the early months of 1972, but there is little doubt that total U.S. flour exports for the 1971-72 marketing year will be the lowest in many years.

An important factor affecting world flour trading is the expansion taking place in the world milling industry. The number of flour mills in the world has multiplied at a remarkable rate in the last few years.

The Caribbean, formerly a major U.S. flour market, is now served by mills in Curaçao, Trinidad, the Dominican Republic, and elsewhere. There is also strong French competition for such Caribbean flour business as remains. Guyana is supplying part of its own needs from a new domestic flour mill. Mills have sprung up throughout Africa. Indonesia and Bolivia, two of our major P.L. 480 flour customers of former years, have notified us that they want only wheat this year and are not interested in flour even as an option.

Contributing to the establishment of flour mills abroad is the matter of transportation costs. Shipping conference rates on flour are so high in comparison with tramp rates for wheat that the case for shipping wheat is almost overwhelming, provided there is an outlet for the mill feeds. With the increased emphasis on livestock production, the feed market is ample.

Despite the proliferation of mills, total import demand for flour has remained fairly stable over the past 5 years. The big decline has been in the size of the U.S. share.

Four years ago the United States was supplying 33 percent of world flour exports. In the current marketing year to date, our share is down to 23 percent. Canada has had a 7-percent drop over the same period, and Australia's share has sharply declined. Where has the increase gone? Almost entirely to the European Community, which has more than doubled its share of the world flour market since 1968 and is now supplying 60 percent of world trade.

Analyzing the situation a trifle further, we find that Canada is doing the major part of its flour export business with nations having centrally planned economies, such as Eastern Europe and the USSR. The European Community has replaced the United States as the principal supplier to the developing countries. Australia, like the United States, has lost ground as a supplier.

One of our problems is price. We are making export payments on flour that are designed to keep our flour competitive in world markets. These payments are higher today than they were a year ago in relation to the price of wheat. Even so, it is virtually impossible to remain fully competitive against the European Community, which sometimes subsidizes flour exports at an amount equal to, and at times exceeding, the full value of the flour. Australia and Canada subsidize flour exports but are likewise having problems in meeting competition from the EC, as well as from Japan in Asia.

Where we are able to keep competitive, and where there is still a substantial flour market, we do well. Saudi Arabia, for example, in 1971 was one of only a few countries to increase its flour purchases from us over 1970, and is our largest cash flour buyer. Its annual purchases from the United States are in excess of 2 million hundredweight, or about 10 percent of our total exports.

World politics have played a role in our declining flour exports, as well. Cuba, one of our major customers, is no longer eligible. We lost Egypt as a flour market at the time of the Arab-Israeli war in 1967, and it is still not eligible for P.L. 480. We may get some business there again as a result of a debt rescheduling that makes Egypt eligible for the CCC (Commodity Credit Corp.) export credit sales program to the approximate extent that it reduces its old debt. However, Egypt has not yet bought any flour under this program, and so far has been leaning toward other commodities, principally vegetable oil.

We believe there are some things that can be done to improve the situation. Some things the industry might do on its own and some would involve cooperation with the Department of Agriculture.

One suggestion is to place the flour export payment program on the same basis as the wheat export payment program. That is, USDA would announce a daily subsidy which mills could book at a time of their own choosing, without regard to the time of sale. This would enable suppliers to take subsidy positions if they choose to do so, although the facility to book subsidy at the time of sale would remain in effect should the miller prefer to use it.

One other possibility is that USDA might offer a carrying charge incremental payment under the flour program for deferred shipments as is done in the wheat program. This would be of particular help if the flour payment program were placed on a booking basis like that for wheat.

Some of the smaller firms apparently fear that such a system would favor the large mills that can afford the risk of making substantial forward commitments. Frankly, we do not feel these fears are justified.

The total U.S. milling industry should grind and sell more flour. Experience has shown that the large mills which obtain orders normally need to purchase from other mills a third or more

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Remarks by Mr. Pulvermacher before the Annual Meeting of the Millers' National Federation in Phoenix, Ariz., on Tuesday, Apr. 25, 1972.

of the flour to fill those orders. The same thing could be accomplished by smaller mills pooling their supplies. So any system that sells more flour helps all millers, large and small.

Generally speaking, the potential for enlarging flour exports lies not in making more small parcel shipments but in larger round lot sales to countries, such as Ceylon and Zaire (the former Democratic Republic of the Congo) which are still issuing sizable worldwide tenders.

One advantage of making larger sales would be reduced shipping costs, either under conference rates or through the use of tramps, rather than making small parcel shipments under conference rates. The situation is particularly difficult for shipments to the important West African markets, such as Nigeria and Zaire. To these markets, freight costs have represented as much as 50 percent of the f.o.b. cost of the flour. While West African importers are normally willing to pay a premium for U.S. flour because of its quality, a 50-percent shipping cost throws our price too far out of line with European flour to enable us to hold our share of these markets.

The EMS ocean transportation staff is working actively on this problem. A series of meetings has been held with the leadership of the West Africa Shipping Conference and officials of the Millers' National Federation to discuss a possible reduction in rates. Negotiations are continuing. Conference representatives are sympathetic with the problem, but cite numerous problems that account for the high rates, such as labor and port costs, growing congestion, and frequent delays in African ports.

Export sales involving larger quantities would certainly put the U.S. industry in a stronger bargaining position.

To help U.S. millers compete for such business, the Department is prepared to consider offering flour export payments on a bid basis for large quantities—say full 10,000-ton cargoes or perhaps 5,000-ton lots. If the export payment level bid is acceptable to USDA it would be held open for an optional period enabling the miller to submit his offer to the foreign buyer and before the end of such period either close or cancel his export payment booking.

In addition to making improvements in the export payment program, greater use might be made of two commercial-type programs—CCC credit and barter.

Barter is already being used to a limited extent for flour. From only 10,000 hundredweight in the 1970 fiscal year, flour exports under barter programs grew to 75,000 in 1971. Practically all of this went to Zaire. In fiscal 1972, it appears that it will go substantially higher, with Jamaica as the major purchaser. Many countries are eligible for barter of flour without restriction.

Certain operational and procedural changes are being made in the barter program which we believe will enhance its effectiveness.

As to CCC export credit, no flour at all is currently being shipped under this program. The last flour shipment financed in this manner went to Sudan in 1967.

Under this program, the exporter can get credit for up to 3 years, with interest currently at 6⅛ percent—terms that are passed along to the foreign importer. This program is helping the United States meet credit competition in scores of markets and is being used to build exports of wheat, cotton, tobacco, vegetable oil, tallow, and many other commodities. Last year, the program accounted for a record total of almost $400 million in agricultural exports.

Another program that may be of help to flour millers is the DISC program, under which domestic international sales corporations may be established and qualify for special tax treatment for taxable years beginning on or after January 1, 1972. This is designed to give U.S. corporations tax treatment for export income more comparable to that afforded by many foreign countries to their exporters. P.L. 480 shipments are not eligible for this program but commercial exports are. The program is administered by the Treasury Department and is worth looking into for any company exporting.

At best, of course, the world flour market is unlikely to increase much. An area of greater potential growth for the milling industry probably lies in special products such as pancake, cake, and biscuit mixes, and the new blended foods.

Wheat flour mixes have been extensively promoted abroad in the last few years through the Department's market development program and have had excellent acceptance in dollar markets all around the globe. Last year export sales of mixes reached an all-time high of nearly $2 million. The total is less impressive than is the fact that U.S. mixes were exported to more than 60 countries, with Canada and Mexico as the top buyers and substantial sales throughout the Caribbean and the Middle East.

Roller crushing of wheat in Japan. Japan's flour competes strongly in Asia.

Much larger in the export picture and with more potential for growth are the new blended foods. These are high-protein grain products that were originated for overseas distribution under the P.L. 480 donation programs.

Of principal interest to the flour milling industry among these products is WSB, a blend of wheat and soya flour, which may be made into a drink or added to various cooked dishes and products to enrich them. Last year, we exported nearly 100 million pounds of WSB, valued at about $7.5 million.

All of this was donated, of course, but we have recently made the product eligible for commercial financing under the CCC export credit sales program, and a $1.8-million sale has already been made to Nigeria. Brazil recently made a cash purchase for its school lunch program, and Mexico's Government food corporation (CONASUPO) is showing interest.

Even more promising over the long haul are some of the wheat-soya blends that contain an emulsifier and may be used in baking bread. These are just coming out of the experimental stage, but there is every reason to think that they will be successful and, if properly promoted, can help fill some of the void left by the drop in exports of conventional flour.

How U.S. Farm Marketing System Helps U.S. Trade In Farm Products

By CLARENCE D. PALMBY
Assistant Secretary of Agriculture

The business of developing markets abroad is often difficult and frustrating. Yet much progress has been made, and there is always a challenge in trying to expand economic relationships in a world that is still highly diverse in philosophies and ways of living and doing business.

There are certain principles that we believe to be the best and most workable—within a world of many differences. One of these is the opportunity to trade—to compete freely wherever we have an economic advantage. We believe that the ability to compete is responsible for many of the good things about America—the freedom and opportunity as well as the comfort and convenience and generally high quality of life.

To those of us who work in agriculture, it is easy to relate these good things to the efficiency and productivity of the American farmer and the competitive character of our marketing institutions. I think it is fair to do this. By any standard, our farmers and agribusiness have contributed in a remarkable way to American civilization and economic growth.

One of the most impressive things about America is the existence here of a marvelous marketing machine. The speed and flexibility and general effectiveness of our marketing system has no peer in the world. And in many other countries the lack of an adequate marketing system is a severely limiting factor.

I could name areas of the world where the arts of farm production are rather highly developed—yet progress is stymied by a marketing and distribution system that simply does not provide the identification, pricing, transportation, and storage functions that are necessary to a highly developed economy.

In this country, we do have a highly sophisticated marketing system, and certainly the growth and activity we see in the commodity markets today are evidence of this. The mechanism for buying and selling commodities on a future basis plays a tremendous role in the overall functioning of our food and agriculture system. And it could play a still more important role.

Over the past several years there has developed a greater appreciation of the pull of the market particularly for soybeans and other oilseeds.

A greater reliance has been placed on the forces at work in the market, and the marketing system has responded in a desirable way. Farmers are in a better position to win markets for our still expanding productive capacity. They are better able to take advantage of the growing world demand for livestock production, feedgrains, and oilseeds.

In 2 years, agricultural shipments abroad grew from $5.7 billion in 1968-69 to $7.8 billion in 1970-71, which was an alltime record by a billion dollars. I might point out, too, that all of this growth was in commercial dollar sales, since the trend has been to reduce concessional shipments and move toward dollar terms.

In the current export year, that ends June 30, we have been up against a number of unfavorable factors. One was a big year for grain production last year, here and around the world, which meant greater competition for the existing market. Another bearish factor was a series of work stoppages in our deepwater ports.

Even so, 1971-72 will end up as a near-record year for U.S. farm exports. The value of our farm exports for the 9 months ending March 31 was slightly ahead of last year's record flow, and we expect that exports for the year will be very close to last year's $7.8 billion. We do expect that the volume of exports will be below last year, but that higher prices will bring the total value very close to 1970-71.

This recovery of our farm export position, despite obstacles, is a real credit to the marketing system. This is a system that works because of confidence—confidence in the communications network, in transportation, and in the identification system that permits buyers and sellers to specify kinds, qualities, and grades.

Such confidence is evident throughout the market machinery, and it enables the system to respond to changing situations and changing requirements. An example of this ability of the market system to respond to change is quite evident right now in the marketing of cotton.

The freedom to produce without penalty and without additional government payments appears to be succeeding, since planted cotton acreage this year is around 13½ million acres, which is 10 percent above last year's planted acreage and 15 percent above the national base acreage allotment.

With cotton supplies at low levels this year, textile manufacturers and other foreign and domestic buyers are forward contracting to a degree never before known in this country. By the end of April, I am told, 39 percent of next fall's U.S. cotton crop had already been sold. Over two-thirds of the South Central crop has been contracted, and more than a third of the Southeastern crop. But all producing areas have shown some increase in this activity.

Forward contracting guarantees the producer's income while assuring supplies for the buyer. It should have the effect of encouraging greater planting, and improving the likelihood that the crop will be big enough to take care of demand.

Forward contracting has been attractive to producers in a period when spot prices and new crop futures are well above the commodity loan level. Producers could use the futures market to achieve the same objective of protecting the price they are to receive for the 1972 crop. In practice, however, they have preferred to hedge the future by contracting with merchants and mills rather than entering the futures market themselves.

I might point out that the present cotton program, authorized by the 1970 Act, gives producers the freedom of action to use either forward contracting or the futures market— and plan their production accordingly. Since the 1970 Act eliminated the penalty for overplanting, the farmer has the opportunity to make his own decisions, and the market has the opportunity to function.

(Continued on page 12)

Excerpts from Mr. Palmby's remarks to the Commodity Club of New York, May 18, 1972.

JAPANESE TRADESMEN VIEW U.S. PRODUCTS AT 5-DAY AMERICAN FOOD FESTIVAL

American fresh, frozen, and packaged foods drew an active response from the Japanese food industry the week of April 17-21 at a trade show in Tokyo promoting U.S. exports to one of the fastest-growing markets in the world. Beef, pork, and poultry items highlighted a list of some 600 products from 41 exhibitors representing about 60 U.S. companies.

Sampling of cooked and consumer-ready items was a major part of the American Food Festival, which drew some 2,800 Japanese trade people during its 5-day run at the U.S. Trade Center. In addition to meats, there was good response to fruits, nuts, candies, cheese and cheese products, jellies and preserves, cake mixes, soups, sauces, and pie fillings.

Floor sales at the show totaled $118,450; projected sales were estimated at $3,475,100—including $2 million of citrus products. Meat and meat products also sold well: one floor sale alone involved $75,000 of Wisconsin meat meat products.

The American Food Festival was sponsored jointly by the U.S. Department of Agriculture's Foreign Agricultural Service and by the Mid-American International Agri-Trade Council (MIATCO), which represents 12 Midwestern States' departments of agriculture. Other States were also represented by food products—some of them never before offered to Japanese consumers.

The show concentrated on food categories identified by market analysis as having the best prospects for rapid sales growth in Japan. Sales efforts were directed toward hotels, restaurants, supermarkets, and other business organizations involved in the Japanese food trade.

For 2 straight years, Japan has been a market for over a billion dollars worth of American farm products annually. Last fiscal year, the Japanese accounted for $1.2 billion worth of U.S. agricultural products—over 15 percent of the record $7.8 billion total of U.S. farm exports. Sales of consumer-ready items accounted for over $50 million, and should continue to grow rapidly.

U.S. Farm Trade With the USSR (Continued from page 4)

large volume grain purchase which the Soviet Union might need for animal feeding. Also, it is the only country which produces a sizable quantity of soybeans for export. The potential for sales therefore is good, provided that the Soviet Union decides to increase coarse grain and soybean imports and that other considerations permit sales.

Potential Soviet markets for other U.S. agricultural products appear to be limited at present, for several reasons. Russia plans to increase consumption of fruits and vegetables by 1975, but this increase does not appear to have the priority now placed on increased consumption of meats. Most of the Soviet Union's fruit and vegetable imports now come from Eastern Europe (especially Hungary, Bulgaria, and Romania) and from developing countries with which the Soviets have bilateral trade agreements. Thus, hard Western currencies do not have to be used to import these commodities. Even so, in 1969 approximately $37 million in fresh and dried fruits and nuts were imported from non-Communist Europe (mainly Turkey, Italy, and Greece).

In the near future, an inconvertible Soviet currency and limited Soviet supplies of hard Western currencies with which to buy foreign products will act to restrain the expansion of trade with the West. Limited Soviet export capabilities in products desired by Western markets make it difficult for Russia to earn Western currencies—except for trade in raw materials such as minerals and lumber, in furs and some manufactured products, and—for the future—in natural oil and gas. A substantial improvement in the quality and design of manufactured products and the creation of new industries making products which have a market in the West would improve future Soviet export capabilities, but this may require Western technology and credits.

Immediate Soviet requirements for agricultural imports from the West lie in grains and feedstuffs and the United States would like to gain a portion of this market for the benefit of its farmers and its balance of payments.

THE USSR'S FOREIGN TRADE IN AGRICULTURAL COMMODITIES, AVERAGE 1969 AND 1970
[In millions of rubles[1]]

Commodity	Exports	Imports	Chief trading partners
Wheat and flour	400	—	Eastern Europe, Western Europe, Cuba
	—	[2]120	Canada
Coarse grains	55	—	Eastern Europe
	—	20	Mexico, Argentina
Rice	—	50	Egypt, North Korea
Oilseed meal	30	—	Western Europe, Eastern Europe
Sunflowerseed	30	—	Eastern Europe, Japan
Sunflowerseed oil	110	—	Eastern Europe, Western Europe
Butter	50	—	Eastern Europe
Cotton	300	—	Eastern Europe, Japan
	—	180	Africa, Middle East
Meat and products	45	—	Eastern Europe
	—	80	Australia, New Zealand, Europe
Hides	—	55	India, United States
Wool	30	—	Eastern Europe
	—	80	Australia, New Zealand
Tobacco	—	80	Bulgaria
Sugar	90	—	Africa, Middle East, Eastern Europe
	—	260	Cuba
Coffee, cocoa, tea	—	150	LDC's
Fruits and vegetables	—	270	LDC's, Eastern Europe

[1] Official exchange rate: 1 ruble = U.S.$1.10.
[2] Average 1968 and 1970. Wheat imports were exceptionally low in 1969.

CROPS AND MARKETS

GRAINS, FEEDS, PULSES, AND SEEDS

Rotterdam Grain Prices and Levies

Current offer prices for imported grain at Rotterdam, the Netherlands, compared with a week earlier and a year ago:

Item	June 7	Change from previous week	A year ago
	Dol. per bu.	*Cents per bu.*	*Dol. per bu.*
Wheat:			
Canadian No. 1 CWRS-14	1.97	−1	[1] 1.89
USSR SKS-14	1.85	0	1.86
Australian FAQ	([2])	([2])	1.78
U.S. No. 2 Dark Northern Spring:			
14 percent	1.87	−1	1.89
15 percent	1.94	−2	1.94
U.S. No. 2 Hard Winter:			
13.5 percent	1.80	−2	1.90
No. 3 Hard Amber Durum	1.87	+2	1.79
Argentine	([2])	([2])	([2])
U.S. No. 2 Soft Red Winter	1.68	0	1.75
Feedgrains:			
U.S. No. 3 Yellow corn	1.47	−1	1.68
Argentine Plate corn	1.75	0	1.75
U.S. No. 2 sorghum	1.42	0	1.47
Argentine-Granifero sorghum	1.42	0	1.46
U.S. No. 3 Feed barley	1.23	+2	1.21
Soybeans:			
U.S. No. 2 Yellow	3.81	+2	3.42
EC import levies:			
Wheat [3]	[4] 2.00	+2	1.41
Corn [3]	[4] 1.32	+2	.70
Sorghum [3]	[4] 1.37	+1	.93

[1] Manitoba No. 2. [2] Not quoted. [3] Durum has a separate levy. [4] Effective October 14, 1971, validity of licenses with levies fixed in advance is a maximum of 30 days. [5] Italian levies are 21 cents a bu. lower than those of other EC countries.

Note: Basis—30- to 60-day delivery.

LIVESTOCK AND MEAT PRODUCTS

Canada Issues Import Permits For Australian Cattle

The Canadian Agriculture Minister announced May 5 that permits have been issued to import 246 head of cattle from Australia. This will be the first Australian cattle import by Canada.

Permit holders have been allocated to one of three shipment dates—July 1972, November 1972, or March 1973. Dates will be allocated in the order the Department receives requests.

The cattle will undergo preliminary quarantine in Australia and on arrival at Edmonton International Airport will undergo a further minimum quarantine of 90 days at the new quarantine facilities under construction there. At present, the United States does not permit the importation of Australian cattle, mainly because the country is considered to be infected with bovine pleuropneumonia.

According to U.S. regulations, the Australian cattle could be imported into the United States 60 days after release from the Canadian quarantine station. Canada could, however, place export restrictions on the Australian cattle as was done on Charolais cattle imported from France in 1966 and 1967. These animals were only released for export 3 years later.

Canada supplies almost all of the U.S. imports of breeding cattle. In 1970 and 1971, respectively, 24,762 and 21,624 head were imported, mostly dairy breeding animals.

SUGAR AND TROPICAL PRODUCTS

India's Sugar Production Lower in 1971-72

India's sugarcane acreage and production both declined during the 1971-72 season, the second year in succession since the record harvest in 1969-70. Centrifugal sugar production, raw value, including Khandsari (a farm-produced white sugar), is expected to total only 3.8 million metric tons in 1971-72, representing a decrease of 15 percent from last year's output and of 24 percent from that of the record year of 1969-70. The acreage reduction for the 1971-72 season was caused by lower cane prices to the farmers in the preceding season. Another factor affecting this year's crop was climatic conditions: Lack of sunshine, floods in the major producing areas of Uttar Pradesh and Bihar, and drought in other parts of the country.

A tight sugar supply situation is gradually developing in India. If consumption continues at present levels, an acute scarcity could be inevitable by the end of September 1972. Export commitments to preferential markets (the United States and the United Kingdom) are expected to be filled in calendar 1972, but shipments to the International Sugar Agreement quota countries are unlikely.

FATS, OILS, AND OILSEEDS

Growth in West Germany's Imports Of Soybeans and Meal Slackens

From October 1971 to February 1972, West Germany's net imports of soybeans and meal amounted to 1.07 million metric tons (meal basis), 4.5 percent above the same 5-month period in 1970-71. The increase for the 1971-72 period, at 45,900 tons, was sharply below the 90,100-ton growth for the same months in 1970-71.

Apparently the rate of growth in meal demand in West Germany has slackened because of higher soybean meal prices, relatively lower fishmeal prices, favorable cattle grazing conditions, and stagnating growth in meat production. However, meal demand in East Germany has continued to rise sharply.

Transshipments of soybean meal to East Germany, at 185,300 tons, were 65,600 tons above the October 1970-February 1971 period.

FRUITS, NUTS, AND VEGETABLES

Hamburg Prices of Canned Fruits and Juices

Quotations represented importer selling prices including duty and sugar-added levy, but excluding the value-added tax. Sales in lots of 50-100 cases, priced in U.S. dollars, were:

Type and quality	Size of can	Price per dozen units[1] Apr. 1971	Jan. 1972	Apr. 1972	Origin
CANNED FRUITS					
Apricot halves					
Choice	2½	3.18	3.56	3.71	Greece
Do	2½	4.39	4.15	4.28	S. Africa
Not specified	2½	3.44	3.85	3.98	Spain
Peaches, halves:					
Choice	2½	4.48	4.99	5.08	U.S.
Do, light sirup	2½	4.10	4.40	4.55	S. Africa
Not specified	2½	4.07	4.26	5.08	Australia
Do	2½	—	4.22	4.21	Italy
Do	2½	3.08	3.17	3.28	Greece
Do	2½	3.84	4.22	4.28	Argentina
Peaches, slices:					
Not specified	2½	—	4.04	4.17	U.S.
Do	2½	3.51	3.93	4.07	Australia
Standard	2½	3.51	3.82	3.90	U.S.
Pears:					
Not specified	No. 1	3.34	3.74	3.88	Italy
Fruit cocktail:					
Choice	2½	5.11	5.65	5.76	Australia
Do, 4 fruits	2½	—	5.14	5.31	Spain
Heavy sirup	2½	5.41	5.95	6.15	U.S.
Not specified, 4 fruits	2½	4.72	4.73	4.89	Italy
Cherries, red pitted:					
Fancy, water pack	10	21.97	25.14	26.24	U.S.
Not specified, water pack	10	—	18.17	18.71	Greece
Do	5 kg.	26.23	28.63	29.75	Yugoslavia
Pineapple, whole slices:					
Fancy	2½	5.31	5.95	6.14	U.S.
Choice	2½	4.23	4.37	4.51	U.S.
Not specified	10	—	13.21	13.26	Taiwan
Do	2½	3.38	3.67	3.79	Ivory Coast
Do	2½	3.44	3.05	3.15	S. Africa
CANNED JUICES					
Orange, unsweetened	43 oz.	3.25	3.60	3.71	Greece
Do	2	1.84	2.06	2.12	Israel
Grapefruit, unsweetened	43 oz.	3.93	4.00	4.13	Greece

[1] Converted to U.S. dollars at approximate parity existing when quotations were observed.

Netherlands Prices of Canned Fruits and Juices

Quotations, representing wholesale offering prices on a landed weight basis including duty and the sugar-added levy, but excluding the value-added tax, and priced in U.S. dollars, were:

Type and quality	Size of can	Price per dozen units[1] Apr. 1971	Jan. 1972	Apr. 1972	Origin
CANNED FRUITS					
Apricots:					
Heavy sirup	2½	3.22	3.62	3.62	Greece
Peaches, halves:					
Fancy	2½	4.48	5.36	5.36	France
Choice, heavy sirup	2½	4.48	4.59	4.47	S. Africa
Do, light sirup	303	—	3.11	3.11	U.S.
Do	2½	—	4.29	4.18	S. Africa
Standard	2½	3.15	3.51	3.51	Greece
Fruit cocktail:					
Choice	2½	5.14	5.77	5.81	Australia
Do	2½	4.74	5.25	5.25	Italy
Do	2½	—	5.14	5.14	S. Africa
Pineapple slices					
Fancy, heavy sirup	2½	4.94	5.25	5.25	U.S.
Choice	2½	—	4.92	4.92	U.S.
Heavy sirup	2½	—	—	3.96	Taiwan
Standard	2½	—	—	3.96	Philippines
Do	440 gr.	—	2.18	2.18	Cuba
CANNED JUICES					
Orange, unsweetened	1 ltr.[2]	3.78	3.88	3.88	Israel
Grapefruit, unsweetened	1 ltr.[2]	3.88	4.33	4.33	Israel

[1] Converted to U.S. dollars at rate applicable at time of quotation. [2] Packed in glass bottles.

TOBACCO

Canada Sells Tobacco to China

Based on current reports, an Ontario, Canada, tobacco company has recently made a sale of locally grown tobacco to China, worth more than Can$750,000. The Ontario Flue-Cured Tobacco Growers Marketing Board estimates that the sale should represent by present market prices about 600,000 pounds. Even though Marketing Board officials have recently considered subsidizing tobacco exports, there is no subsidy involved in the sale to China.

The Board thinks China is a potentially large export market even though China is the second largest tobacco producing nation in the world. This sale comes at a time when Canadian tobacco officials fear that its largest export market (the United Kingdom) is being threatened by expansion of the European Economic Community because the tariff advantage of 18 to 20 cents per pound will be lost.

Canada exported a total of 68 million pounds (dry weight) tobacco during 1971 out of a total crop of about 200 million pounds with about 90 percent of total exports going to the United Kingdom.

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Foreign Agriculture

The Caribbean Market for U.S. Beef (Continued from page 5)

First, reductions in the prices of airplane tickets to Europe (particularly for charter flights) already have begun to siphon off important numbers of tourists, who might have gone to the Caribbean. Tourist Boards believe that this diversion of vacationers to Europe will continue, but are not willing to estimate its magnitude.

Second, the devaluation of the U.S. dollar may have a dampening effect on all foreign travel.

Third, the U.S. east coast dock strike, the unusually high level of personal savings, and the uncertainty over the future direction of the U.S. economy, were local factors that combined to reduce the number of tourists and, consequently, the quantity of U.S. beef shipments to the Caribbean in 1971. The 9-percent rise in U.S. sales that year was much less than the 19 percent average annual rise during 1965-70.

Fourth, the high price of U.S. beef in the Caribbean market also limits exports. The price is unnecessarily high because small shipments eliminate economies of scale. Further, inadequate transport, handling, and storage facilities result in a high percentage of spoilage and pilferage.

These and other physical distribution problems currently are being identified and studied under a project co-chaired by the Agricultural Research Service and the Foreign Agricultural Service of the U.S. Department of Agriculture. Teams of experts are visiting private transport officials, shippers, and exporters here and in Puerto Rico and also will inspect the facilities in the Caribbean islands. They will ultimately propose solutions and work with private industry to overcome the major delivery system problems that affect U.S. exports of perishables to the Caribbean.

A predicted strong growth in the U.S. economy is the basis for forecasting a bright outlook for U.S. beef sales to the Caribbean. Although the rate of increase in the 1971-74 period is not expected to match that of 1965-70, exports are forecast to reach nearly $17 million a year, equal to a 16 percent annual rise.

Exports for the first quarter of 1972 were 17 percent greater than the first quarter of 1971. On the basis of these first quarter results, exports in 1972 can be expected to reach $12.7 million.

U.S. Farm Marketing (Continued from page 8)

If grain and soybean producers are to make full use of the market machinery we have in this country, they need more information from the trade—information on new crop prices and market opportunities. This is not to say that producers should be told when to sell, but people in the marketing system can provide a great deal of information as to opportunities in forward contracting and futures trading.

Individuals and firms that buy and sell farm commodities use the futures market to great advantage. Why should not the farmer himself make full use of the market machinery to take advantage of a price of his own choosing —and not be forced to rely entirely on the day-to-day cash price? This will help him, and it will help the functioning of the system. By forward planning, which may on occasion mean contracting for future delivery, producers can attain more from the market and be less a captive to what the market will pay at any one specific time. There is a difference.

We have this marvelous market machinery that is so important to our economic system. At the same time, there are competitive systems in the world. There are also people here in America who question the ability of the market to deliver fairly the benefits of our productive ability.

It is therefore important that we use this machinery—and use it well—so that its benefits are fully demonstrated and widely appreciated. In a world so receptive to change, I think it is fair to say that we must use our market machinery—or lose it.